



City of Somerville
Joseph A. Curtatone, Mayor

**FY07 Budget
Overview Process**

6/06/2006



2. Highlights

- **Education:**
 - Increase School Department budget by \$985,700.
- **Public Safety:**
 - Continue rebuilding the Police and Fire Department ranks.
- **Customer Service:**
 - Hire an additional operator in 311.
 - Enhance Connect-CTY Mass Communication System.
- **Management and Accountability:**
 - Hire an Internal Auditor.
 - Increase scope of services within SomerStat.
 - Hire an Environmental Programs Manager.
- **Quality of Life:**
 - Increase Recreation programming.
 - Extend Library hours.



3. Fiscal Challenges

- Still dealing with the loss of state aid. FY07 Level is \$6,041,854 below high water mark in FY02.
- Spiraling construction costs.
- Increasing employee benefit and energy costs.



4. Fiscal Challenges

- 10% reduction in Community Development Block Grants.
- Debt service increases to fund infrastructure improvements.
- Substantial contributions to fund other post employment liabilities as a result of GASB 45.



5. Fiscal Outlook

- Long-term outlook is positive.
- Confirmed by our recent bond rating upgrade.
- Bond rating agencies recognize the economic potential of the Green Line Extension, Assembly Square, as well as future of Union Square, Innerbelt, and Route 28 Corridor.
- Policy of controlled budget growth and prudent use of resources.



6. FY07 Budget

- Proposed budget = \$153,196,202
- Up \$7.5M from FY06
 - 5.2% increase
- Lower than FY06 budget increase of 6.5%

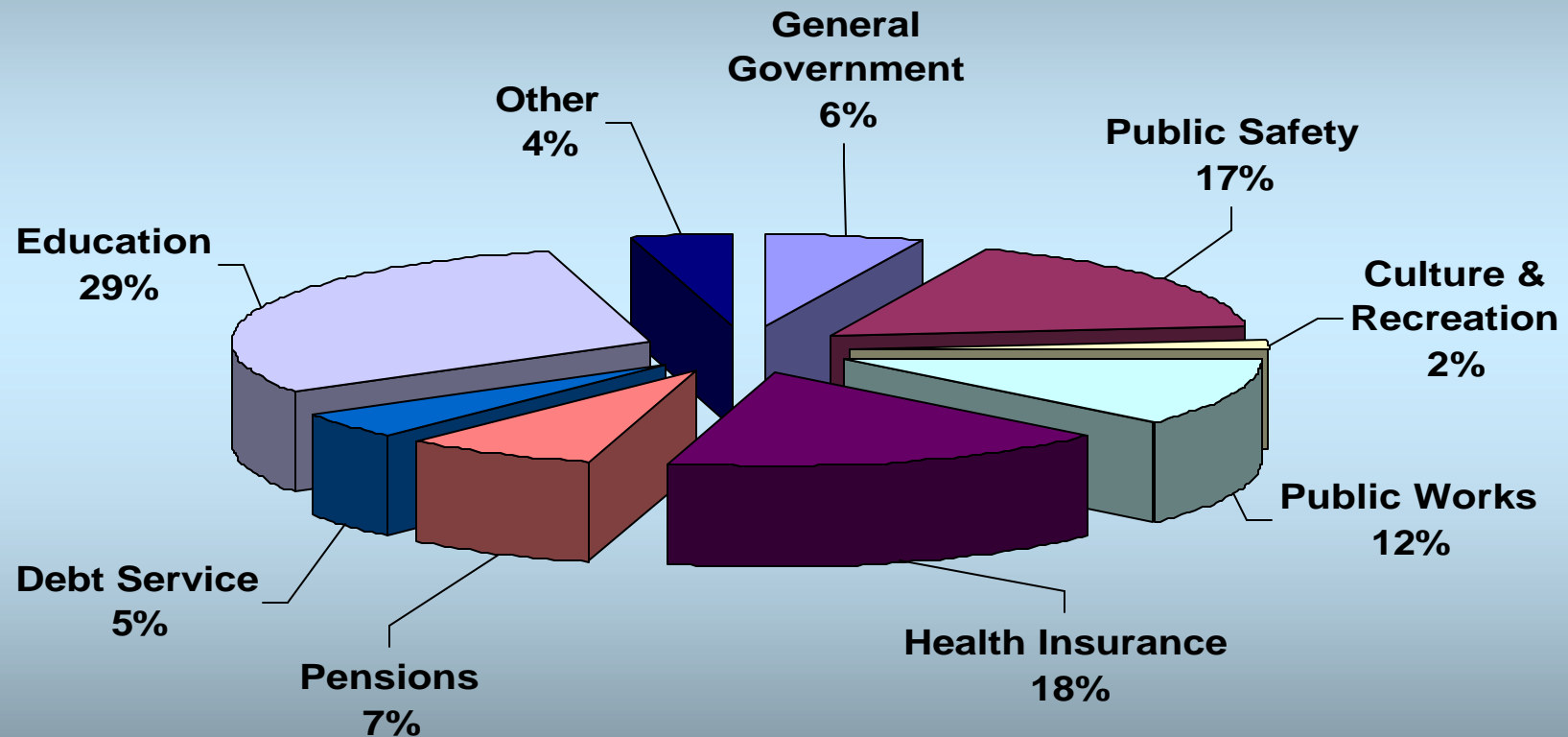


7. FY07 Budget

- FY07 departmental spending = \$102,146,161
 - 67% of budget
- Departmental spending increase = 2.5%
- FY07 fixed costs = \$51,050,041
 - 33% of budget
- Fixed cost spending increase = 8.5%

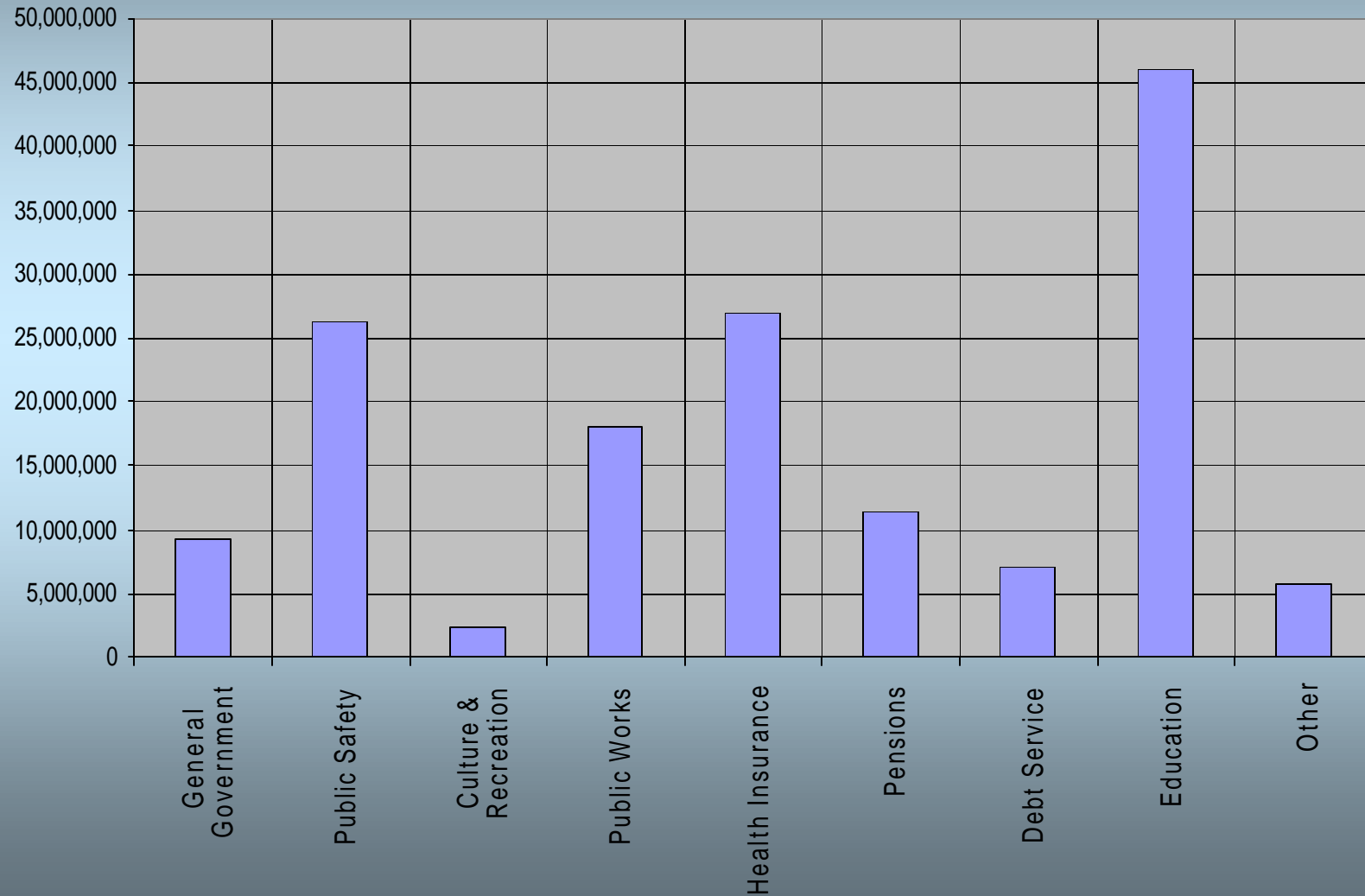


8. Budget – Appropriations by Function





9. Budget – Appropriations by Function





10. Cost Drivers

- \$2.9 M of \$7.5 M increase is attributable to negotiated or projected collective bargaining settlements (salary, in-grade increments, longevity, etc.).
 - 38.6 % increase.
- \$2,022,159 of \$7.5M increase is budgeted for health insurance.
 - 26.9% increase.
- Pensions increased \$407,040.



11. Cost Drivers

- Workers comp increased \$150,000.
- Debt service increased \$222,085.
- Electricity increased \$185,000.
- Oil increased \$63,000.
- Motor gas increased \$35,000.
- Vendor contract increases.



12. Health Care Costs

- Costs expected to increase on average 13% every year - a budget buster.
- For every \$100 the City spends, \$17.50 is spent on health insurance for employees and retirees.
- Absorbs tax revenue: FY07 increase represents 45% of allowable and projected growth in the tax levy. Will eventually outstrip tax levy growth.



13. Health Care Costs

- City's plan amongst the most generous, both in terms of portion paid by City (90% for HMOs & 99% for BC/BS) as well as co-pays.
- High portion paid by City will have huge impact on GASB 45 post employment liability.



14. Health Insurance – GASB 45

- GASB 45 requires local governments to show, on their financial statements, total dollar value of retiree health care promises made to each worker and retiree.
- The City is required to book an expense in the annual budget for dollars required to fully fund those retiree health care liabilities over a 30-year period.



15. Health Insurance – GASB 45

- Current “pay as you go” system ignores value of health care benefits that retirees and active workers have already earned but not received.
- Required actuarial study to determine liability funded in FY07 budget.
 - Budgetary impact in FY08.



16. Actions Needed to Control Health Insurance Costs

- Statutory barriers stand in the way of making timely changes.
- Virtually every element of employee health coverage is subject to collective bargaining.
- State law requires that each change proposed be approved by all unions.



17. Actions Needed to Control Health Insurance Costs

- Change law to allow cities to negotiate separately with each union – end “one size fits all” approach. Tailor plans to needs of each union.
- Allow cities to join state Group Insurance Commission – consolidate and reduce costs.



18. Actions Needed to Control Health Insurance Costs

- City's capacity to fund future wage increases is closely linked to the growth in health care expenses.
- Must view insurance as part of compensation package.
- Insurance increases each year can be equivalent to 2-3% of base wages.



19. Actions Taken to Control Health Insurance Costs

- Negotiating increase in contribution levels with unionized employees.
- Employees willing to increase contributions by 5%.
 - Resolution with one school union.
 - Close to resolution with one City union.
- Negotiated substitution of PPO plan (90% - 10%) for antiquated costly indemnity plan (99% - 1%).
 - Four unions have agreed - SMEA Units A, B, D, and Police Superior Officers.



20. Actions Taken to Control Health Insurance Costs

- Implemented Medicare Part D drug subsidy.
 - \$420,000 savings.
- Switched non-union employees enrolled in indemnity to PPO on June 1st.
- Recovered health insurance costs from federal and state grants.
- Actions contained budget increase to \$2,062,009.



21. Actions Planned to Control Health Insurance Costs

- Non-union employees voluntarily increasing contributions by 5% on July 1st (85% - 15%).
- Will seek adoption of Ch. 32, Sect. 18 requiring all retirees eligible for Medicare to enroll in Medicare Part B.
- Sec. 18 transfers eligible expenses from the City plan to the federal government.



22. Actions Taken to Control Energy Costs

- Somerville benefited by sticking with the default rate.
 - Electricity will be under budget by approximately \$100,000 in FY06.
- Cooperated with the School department to reduce costs by:
 - Reducing temperatures;
 - Consolidating programming in fewer school buildings;
 - Implementing conservation measures – “Turn it off or turn it down” when not in use.



23. Actions Planned to Control Energy Costs

- Bid out contract for electricity in month of June when rates are lowest.
- Move remaining Powderhouse programs to Cummings – saving \$210,000 per year in electricity costs.
- As part of new Office of Sustainability and Environment, hire Environmental Programs Manager to manage energy efficiency programs.
- Issue RFP to retain an Energy Service Company (ESC) on a performance contract to arrange financing, conduct feasibility analyses, install equipment, monitor savings, and train facility operators to maximize energy savings over the lifetime of the retrofit.



24. Actions Taken to Control Sanitation Costs

- Budget down - \$305,000.
- New Waste Management contract freezes tipping fee.
- Housing Authority pays for own trash pick up.
- 1/3 less commercial trash pick-ups.
- Street sweeping debris sent to vendor at lower yard waste rate.



25. Revenue – Property Tax

- Property Tax Levy - \$83,055,532.
 - Increased \$4,526,719 or 5.76%.
- \$150,000 below Proposition 2 ½ Levy Limit.
- New growth at \$2,370,666.
- Additional new growth can be added until June 30, 2006.



26. Revenue – Property Tax

- Actual tax levy determined in Fall as part of tax rate setting process.
- Tax levy can be reduced further after consideration of:
 - Final new growth;
 - Residential/commercial classification shifts;
 - Final state aid once the state finalizes the FY07 budget;
 - Additional non-property taxes based on actual FY06 collections; and
 - New “free cash” certification.



27. Revenue – State Aid

- Based on FY07 House Final.
- \$2,336,466 increase or 4.38%.
- Lifting of Lottery Cap - \$1,849,020 increase.
- Chapter 70 increase of \$269,400.
- State assessments up \$467,536.
- Net state aid increase = \$1,868,930.



28. Revenue Local Receipts

- No increases in fines.
- Parking fine revenue will decrease based on fewer parking meter, street sweeping, and snow emergency violations because of greater deterrents.
- Building permit revenue up due to increased economic activity and \$1 increase in plan review fee.
- Fee revenue down 7.8%.
- Commercial trash pick-up and residential trash fee (7 units plus) down due to choice of private vendor (reduces expenses for City).
- Change in market conditions drive an expected 20% reduction in condo conversion fees.

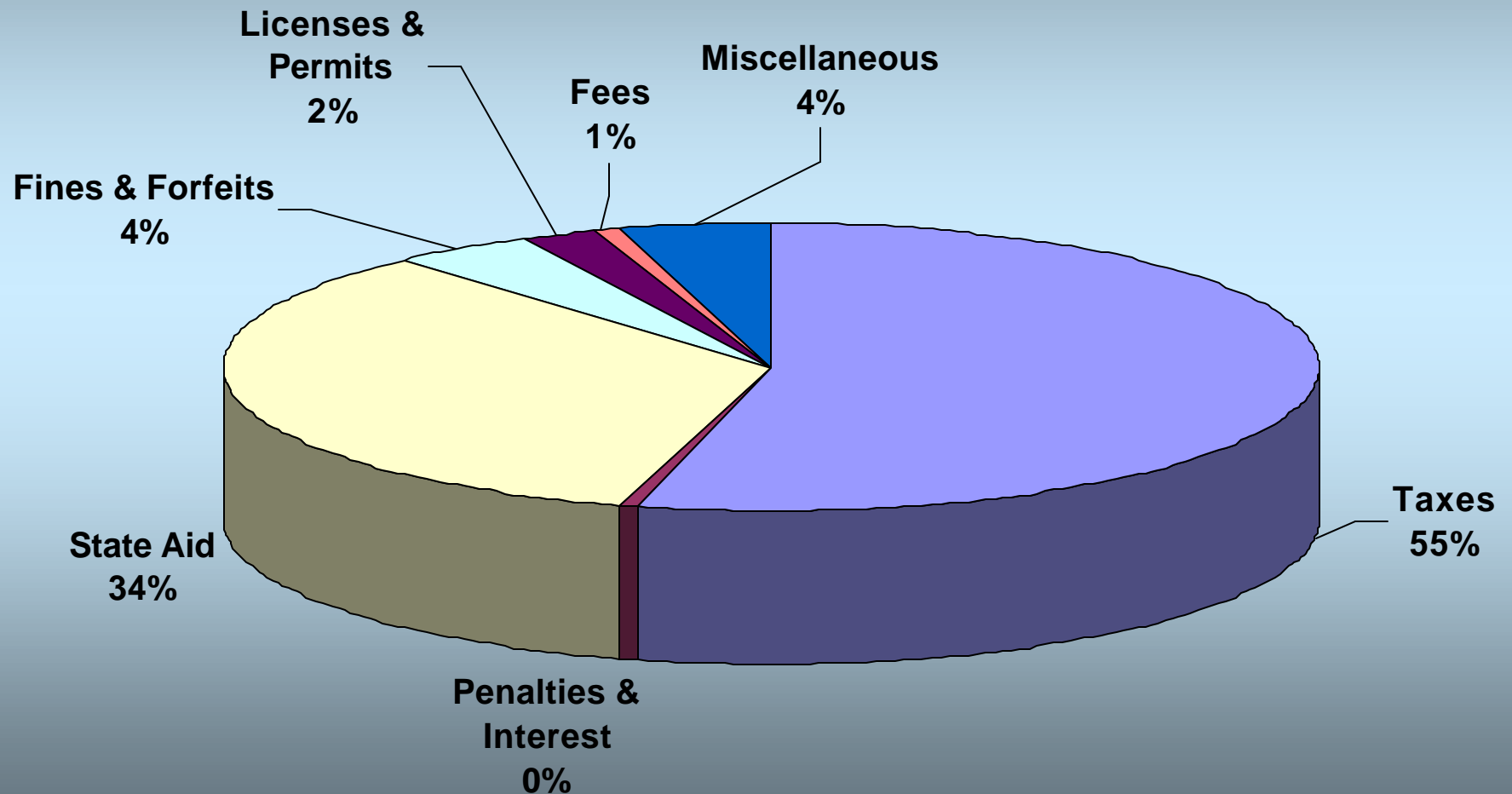


29. Revenue – Reserves

- \$3M in Free Cash from July 1, 2005 – Certification applied to balance budget.
- \$700,000 in current Parking Meter Receipts – applied to balance budget.
- \$500,000 in Overlay Surplus expected to be declared by Assessor.



30. Revenue by Source





31. Education Spending

- Funded at level requested - \$45,985,700.
- Many school-related costs are carried on the municipal budget (debt service, health insurance, school building maintenance, utilities, school health nurses, etc.).
- Somerville school spending is well above required foundation budget levels.



32. New Initiatives

- Continue rebuilding Police & Firefighter ranks.
- 10 new Patrolmen.
- Police reorganization – add command capacity.
 - 5 Lieutenants and 3 Captains.
- 2 new Firefighters.



33. New Initiatives

- Extend Central Library hours –open Saturdays in the summer and 39 Sundays during school year.
- Hire additional Sanitation Inspector to assist with monitoring of recycling trucks, the collections of CRTs, televisions, computer monitors, and trash ticketing and enforcement.
- Establish Internal Auditor function to safeguard City assets and monitor internal controls (inventory, cash handling, and security).
- Develop new Recreation summer programming.



34. New Initiatives

- Expand 311 Call Center by hiring additional Operator; prepare Call Center to accept all T&P, Health, and ISD service requests by end of 2006.
- Reorganize Police Console Operators and City Hall Operators under Constituent Services.
- Fund Connect-CTY Mass Communications System.
- Incorporate Resident Survey effectiveness measures into FY07 budget.
- Provide resources for Rodent Control Task Force.



35. Capital Spending

- No capital spending in operating budget.
- Revise 5 year Capital Plan during Summer 2006.
- Establish Stabilization Fund to level off swings in Debt Service.



36. Somerville – Best Practices in Municipal Governance

- “Local government needs to find more efficient ways to operate. It looks like Somerville is ahead of the curve on that score.”
 - Lowell Sun, May 21 2006.
- “The Model City; Somerville - Yes, "Slumerville" – is outperforming its much bigger and wealthier neighbors. What can the Bostons and Wellesleys of the world learning from this little burg that could.”
 - The Boston Globe Magazine, May 14, 2006
- It's a remarkable idea: A local government that actually treats its citizens like customers and holds itself accountable to them. Few places in Massachusetts have 311, and no other has put in place Somerville's mix of budgeting and management tools.
 - The Boston Globe Magazine, May 14, 2006